

The 50% CGT Discount – changes afoot? (4) BONUS

There is a lot of talk in the media about whether the government is going to change the 50% CGT discount – which currently provides for a taxpayer to be only assessed on half their capital gain.

But note the discount is only available if you have owned the asset for more than 12 months – in fact for 12 months and 2 days (as this 12-month period excludes the days of acquisition and disposal of the asset)!

And while the discount applies to all classes of assets – from real property to shares and other investment assets – there are some categories of capital gains for which it is not available. And these are essentially capital gains which arise when an asset is “created” in another person (eg, where an option or lease is granted to another person who pays for that right).

Furthermore, it does not apply to companies which are taxed at a 30% rate (or lower).

But where it does apply, it provides a significant tax benefit in that only half the gain becomes assessable when it is added to your other taxable income – albeit, if the gain is sufficiently big, and you are in a lower tax bracket, it may push your capital gain into a higher tax bracket.

Interestingly, some sectors are calling for a return to the old “inflation-indexed” method of calculating the assessable gain. However, they tend to forget that the discount when it was introduced in 1999 replaced both this indexation concession **and** the “averaging” concession – which, more or less, prevented the gain being taxed at rate of tax higher than your normal rate.

And this was one of the reasons why the discount was pitched at the high rate of 50%.

But it was also pitched at this rate to encourage investment – including overseas investment (before the discount was denied to foreign residents in 2012). And the 50% rate was also intended to encourage the turnover of assets.

There is currently a Senate Enquiry into the operation of the discount – with particular reference to its effect on housing affordability and whether it encourages productive investment.

Whether any change in the discount would have any effect on housing affordability has been argued by many - as is the issue of whether an accompanying change to negative gearing would also help. And there have been many submissions to the enquiry on this matter.

There are also valid claims that changes to the discount would generate more revenue – albeit, the amount and timing of this revenue is also a debated point.

However, if you are considering buying or selling assets it may be worthwhile having a chat with us about the matter – and, in particular, whether you should do so before any possible changes to the discount may be announced in the May Budget.

So, come have a chat to us about the matter – as it could be an invaluable piece of forward planning!